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A Journey of Colours

Norwall Group Inc. Annual Report 2002



The popular scroll
side wall in a textured and
woven appearance with
a coordinating border.

Financial Highlights

	12/28/02	12/29/01	12/30/00	12/25/99	12/26/98
Operations					
Sales	\$ 84,308	\$ 70,043	\$ 73,722	\$ 82,638	\$ 82,761
Gross Profit	\$ 27,201	\$ 20,781	\$ 23,373	\$ 25,464	\$ 23,580
Income Before Income Taxes	\$ 9,481	\$ 3,939	\$ 5,582	\$ 4,169	\$ 1,811
Net Income	\$ 5,593	\$ 5,268	\$ 3,632	\$ 3,457	\$ 1,387
EBITA	\$ 15,993	\$ 10,911	\$ 13,465	\$ 12,792	\$ 11,081
Working Capital Ratio	4.9:1	4.8:1	3.4:1	3.1:1	1.3:1
Debt To Equity Ratio	0.33:1	0.61:1	0.68:1	0.96:1	1.43:1
Interest Coverage Ratio (EBITA/Interest Expense)	17.73	6.35	6.45	4.13	3.24

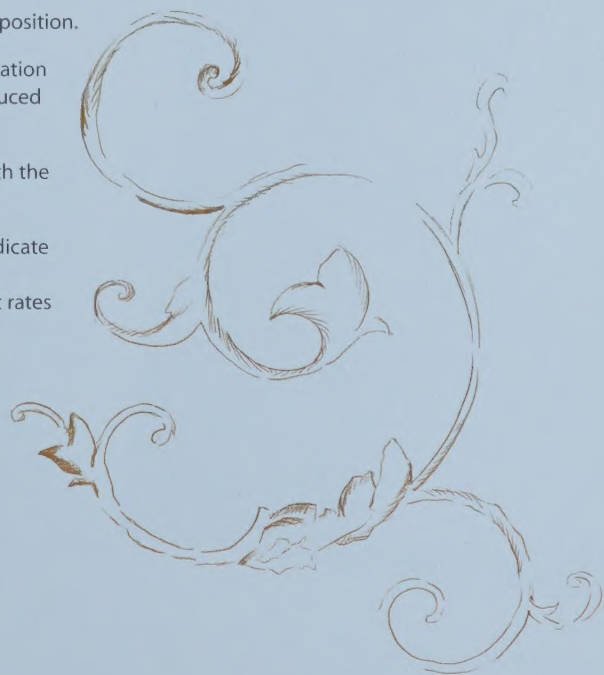
Ratios

Norwall's working capital ratio of 4.9:1 reflects the Corporation's continuing solid financial position.

Debt-to-equity ratio of 0.33:1 represents a decline of 46% from the prior year, as the Corporation paid down \$8.7 million in debt during the year. For 2003, overall debt is expected to be reduced by approximately \$7 million, thereby reducing year-end 2002 debt levels by almost 50%.

Interest coverage ratio of 17.73 reflects the 47% increase in EBITA during 2002, together with the 47% decline in interest expense.

Average interest on debt declined from 7.6% in 2001 to 4.7% in 2002. While the markets indicate that there may be some upward pressure on rates for 2003, notably in Canada, Norwall has negotiated a new banking agreement with Comerica Bank that will reduce existing interest rates by approximately 15%.



Financial Highlights

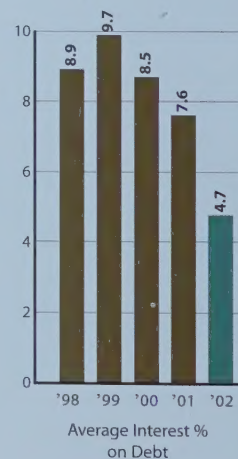
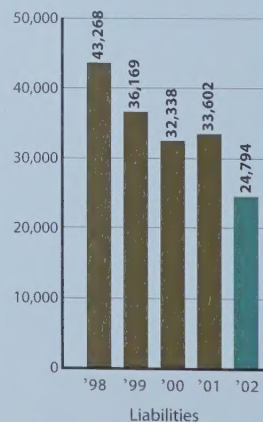
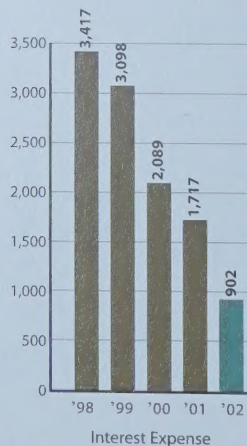
Sales Mix

	Objective 2003	Actual		
		2002	2001	2000
U.S. Distribution (% Norwall)	48% (57%)	47% (57%)	56% (55%)	58% (46%)
Private Label	18%	20%	17%	24%
Mass Merchants, Export, Cdn. Distribution	34%	33%	27%	18%
	100%	100%	100%	100%

U.S. distribution sales, particularly those of Norwall-produced product, are expected to continue to be the mainstay of Norwall's business. Approximately 16 new Norwall lines are projected to be introduced to the marketplace in 2003.

Private label sales for 2003 are expected to decline, as a percentage of total sales, to 18% from 20% of sales. This decline reflects an anticipated weakening in the total number of third-party private-label collections expected to be brought to market.

Sales to mass merchants, export, and Canadian distribution are anticipated to rise, primarily in expanded business with existing customers.



President's Message

Although there was continuing uncertainty in our North American markets in 2002, Norwall delivered outstanding results to shareholders, and is very well positioned to gain further market share this year.

2002 Highlights

While the Canadian economy performed well last year, there were difficult economic conditions in the United States, where Norwall derives approximately 87% of its revenues. The U.S. market suffered from high-profile bankruptcies, accounting and governance fiascos, stock market declines, and slower consumer spending. However, this did not alter our strategy, nor did it prevent us from achieving our targets.

In my message to you last year, I forecasted a bright year for Norwall in 2002 and a revenue increase of 20%. As you can see in the accompanying Financial Statements, we achieved this goal with sales reaching \$84.3 million. Higher gross margins resulted in a 141% increase in pre-tax income to \$9.5 million in 2002. Net income increased 6% from 2001 to \$5.6 million (5% to \$0.86 per diluted common share).

The Corporation's income tax expense in 2002 was \$3.9 million compared to a recovery of \$1.3 million in the prior year, representing an impact between the two years of approximately \$0.80 per diluted common share. The income tax expense for 2002 reflects higher pre-tax earnings but also includes a charge of \$1.2 million in the fourth quarter, primarily to reduce future income taxes as a result of adjustments to previously filed tax returns. These adjustments resulted in a reduction of future income tax assets but did not result in any cash income taxes.

In addition to the growth in sales and pre-tax income, there are four other achievements last year of which I am particularly proud:

- 1) The efficiency of our employees allowed us to handle a 20% increase in business with a 5% increase in operating expenses, the majority of which arose from foreign exchange.
- 2) In a continuing declining market for residential wallcovering, we gained market share.
- 3) We reduced Norwall's bank debt by 37% and benefited from reduced interest rates, thereby cutting our interest expense by nearly 50% and making our balance sheet even stronger with a year-end debt-to-equity ratio of only 0.33 to 1.
- 4) Retained Earnings rose 87%, and Shareholders' Equity increased 15%.

Reliable Strategies

These excellent results reflect a continuing focus on our core business and growth strategy. Norwall knows how to design, manufacture, sell and distribute vinyl-coated wallcoverings, and we leverage our fully integrated operations and wholly-owned distribution network in the U.S. to do so profitably. Because our flexible and efficient manufacturing process is one of the lowest cost operations in the industry, we can offer more value – a broad assortment of fashionable products in the low-to-mid-price range. This is why Norwall enjoys established relations with strong retail customers such as Wal-Mart, Home Depot, Sherwin-Williams, and Lowe's, enabling us to target the expanding do-it-yourself consumer market. All the while, we are maintaining our on-time order delivery, increasing the sales of higher-margin products, and carefully monitoring inventory levels.

So as our competitors faced double-digit declines in their sales last year, Norwall managed to expand its revenue base predominately in North America. Furthermore, after updating various aspects of our operations over the past few years, we have

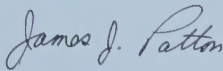
budgeted relatively low capital expenditures for 2003, giving us more opportunity to continue reducing our corporate debt.

Outlook

Looking ahead at the positive dynamics of Norwall – an attractive and extensive collection of products, a robust customer base, a sound balance sheet and low overhead – we are certainly in a strong position to gain further market share. We also foresee growth through new product offerings, sold primarily through our own U.S. distribution network, and increased number of products and shelf space with some of our key U.S. mass-merchant customers.

It will, however, be difficult to equal our 2002 results this year with the continuing uncertainties about the U.S. economy and global conflicts. While the prior year was a record setter for earnings, the Corporation will not have the benefit of the one-time \$3 million initial sale to a mass merchant realized in 2002. Furthermore, we see a continuation in the contraction of the North American residential wallcovering market into 2003.

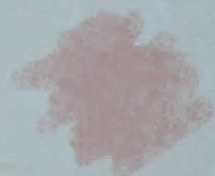
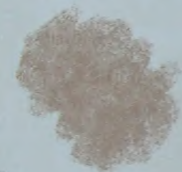
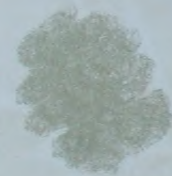
I wish to thank our employees and Board of Directors for their valuable contributions to the success we enjoyed in 2002, and to assure our investors that Norwall's proven strategy and industry-leading position will maintain our success this year.



JAMES J. PATTON
Vice-Chairman,
President and Chief Executive Officer

March 5, 2003

Only Rembrandt could get
this result from a can of
Paint - gorgeous hand
painted flowers.
in frames in the
border with soft
architectural
background textures
+ a flowing floral
trail.



Management's Discussion and Analysis

Overview

Norwall Group is one of North America's largest manufacturers and distributors of quality residential wallpaper and borders. The Corporation sells vinyl-coated wallcoverings to retailers and distributors at retail price points in the low to mid-market range.

The global residential wallcovering industry has experienced double-digit market declines in sales over the past two years, and the trend appears to be extending into 2003. During this time frame, price competition, consolidation and product rationalization have become key characteristics of the industry.

Strategy

Norwall has continued to succeed in this challenging business environment by focusing on its core strengths: its own U.S. distribution network; a solid base of established customers; flexible and efficient manufacturing; low production costs; and a strong balance sheet.

Sales

Sales in the year 2002 of \$84.3 million rose 20.4% over 2001, primarily due to a significant increase in sales to mass merchant customers along with an anticipated rebound in private label sales.

Mass merchant sales in 2002 rose 74% to \$25.7 million due in large part to the addition of North America's largest retailer to Norwall's customer base. Private label sales for 2002 increased 31% to \$16.6 million from the previous year as demand in this segment returned to year 2000 levels. U.S. distribution sales for 2002 increased 1% to \$39.7 million in a market where competitors are experiencing double-digit declines. Export sales declined by 23% to \$2.3 million, primarily due to weaker demand from U.K. and South American customers.

During 2002, U.S. distribution sales included \$22.7 million of goods produced by Norwall – an increase of 3.9% over the previous year. Sales of third-party products declined by \$0.6 million, or 3.4%, as the Corporation's U.S. operation began to concentrate its sales focus on its own higher-margin manufactured products.

Quarter by quarter, Norwall's sales results in 2002 were as follows:

- First quarter sales for 2002 increased by \$6.2 million, or 31%, over the same period last year, spurred by sales of \$5.1 million to North America's largest retailer and the previously expected resurgence of private label demand.
- Sales in the second quarter of 2002 rose by \$6.3 million, or 39%, over the 2001 comparative period, buoyed by continued strength in demand in mass merchant and private label markets.
- Third quarter sales for 2002 grew by \$0.4 million, or 2%, in spite of double-digit declines being experienced by competitors.
- Norwall's fourth quarter sales increased by \$1.4 million, or 9%, led by strong mass merchant results.

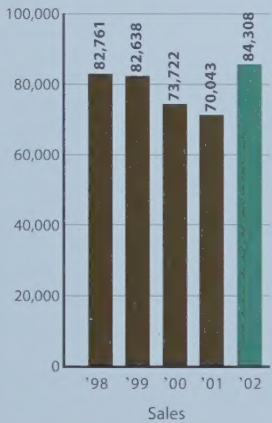
While brand-name recognition by consumers in the residential wallpaper market is virtually non-existent, Norwall products have been very well received, because of their appealing colours and designs. In 2002, Norwall introduced a total of 22 lines to the market – eight Norwall-manufactured lines to the North American market, and fourteen lines, manufactured by third parties, sold into the U.S. market through our wholly-owned distribution operation, Patton Wallcoverings. While our last year's annual report projected fourteen Norwall lines would be available, this number was scaled back in the latter half of the year during a weakening in market



demand. Looking into 2003, the market remains soft, particularly in North America. Management anticipates, however, that it will continue to expand its market share profitably. To achieve this goal, Norwall plans to introduce a total of 28 lines to the market this year – sixteen corporate-manufactured lines and twelve lines produced by third parties – via the same distribution channels.

Gross Profit

Norwall's gross profit in 2002 rose to 32.3% of sales, compared to 29.7% the prior year. This anticipated increase was the result of: an improvement in sales mix; a greater percentage of higher-margin border sales; economics of scale arising from a 9% increase in production volume; and a lower level of program support expenditures.



Management's Discussion and Analysis

Operating Expenses

Operating expenses for 2002 of \$16.6 million rose 5% over the prior year, primarily due to a bad debt with one of Norwall's U.S. customers and to higher amortization on sample books.

Looking into 2003, operating expenses are expected to decline marginally due to tighter cost controls, including the cost of producing sample books, and a strengthening Canadian dollar, which has a positive impact on the U.S. operating expenses at Patton Wallcoverings.

Foreign Exchange (Loss) Gain

In 2002, 87% of Norwall's consolidated sales and 63% of its operating expenses were in U.S. dollars, which rose an average of 1.5% over the year relative to the Canadian dollar. While a strong U.S. dollar is beneficial to Norwall's operations, the timing of revenues and expenses during fluctuating foreign exchange rates led to an overall foreign exchange loss on transactions in the amount of \$222,000. Any exchange rate fluctuation will have an impact on the Corporation's profits and will be partially mitigated by the Corporation's risk management program related to foreign exchange.

Interest Expense

Interest expense in the year 2002 declined to \$902,000 from \$1,717,000 in the previous year. This decrease was due to an \$8.7 million, or 37%, reduction in long-term debt and the Corporation's decision to carry a portion of its long-term debt in U.S. dollars as a hedge against a strengthening Canadian dollar. Under Norwall's banking agreement in 2002, the interest rate on U.S. denominated debt was U.S. prime, while the rate for non-term-related Canadian debt was the rate of Canadian prime plus 0.75%. The Corporation's term debt incurred an interest rate of Canadian prime plus 1.0%.

In 2003, management anticipates a reduction in interest expense of approximately 40%, as Norwall expects to cut its long-term debt in half by the end of 2003. Furthermore, the Corporation will enter into a new three-year banking agreement with Comerica Bank, Canada Branch, as detailed under Bank Debt and Liquidity.

EBITA*

Earnings before interest, taxes and amortization rose to \$15.9 million in 2002 due primarily to

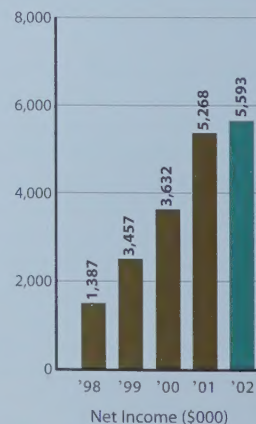
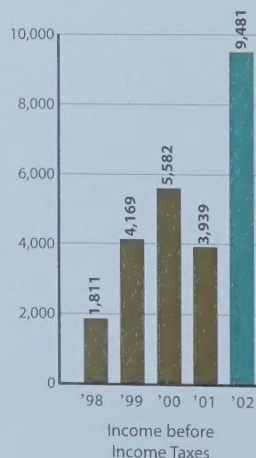
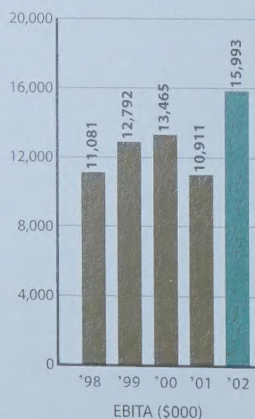
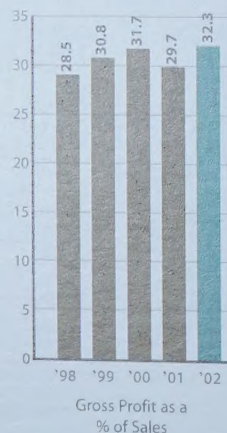
increased level of sales and the higher gross margin achieved as a percentage of sales.

Income Before Taxes

Income before taxes increased from \$3.9 million in 2001 to \$9.5 million in 2002 due to higher sales and gross margins. These two benefits more than offset a 5% increase in operating expenses and the foreign exchange loss of \$222,000.

Net Income

Net income of \$5.6 million was 6% higher than in 2001. Included in the 2002 income tax expense of \$3.9 million are cash income taxes relating to Canadian operations of approximately \$1.7 million. The income tax recovery of \$1.3 million in the prior year included an additional benefit of \$2.6 million relating to U.S. net operating losses in recognition of projected improvements in sales and profitability. As described in Note 5 to the consolidated financial statements, the Corporation has future tax assets of \$2.4 million reflecting the benefit of losses and tax deductions. These future income tax assets were reduced from \$4.6 million in the prior year as a result of higher pre-tax earnings



Management's Discussion and Analysis

in the U.S. operations, changes in temporary differences and the impact of adjustments made to previous tax filings resulting in a charge for income taxes of \$2.2 million of which \$1.2 million was recorded in the fourth quarter.

Earnings per share increased to \$0.88 in 2002 on a diluted basis, or 5% higher than in 2001.

Cash Flow From Operations

Cash flow from operations rose to \$14.3 million in 2002 from \$4.6 million 2001, primarily as a result of the positive changes in operating working capital, combined with improved earnings.

Management anticipates that cash flow from operations this year will provide sufficient liquidity for anticipated operations and investments in working capital and property, plant and equipment.

Asset Management

The Corporation's investment in current assets declined by \$0.9 million to \$35.4 million in 2002, as the level of merchandising supplies, notably sample books in progress, was reduced by almost 48% from the prior year. Norwall has

maintained a strict focus on its working capital investments and, as a result, accounts receivable and inventory levels remain virtually unaltered from the prior year in spite of increased sales and earnings.

Capital expenditures in 2002 of \$2.6 million were 8% higher than the previous year. As in the prior year, approximately one-third of the overall outlay in 2002 related to the acquisition of print cylinders for new designs. For 2003, management estimates that capital expenditures will be approximately \$1.5 million – 40% relating to the addition of print cylinders – for projects previously approved by the Board of Directors.

Investment in customer merchandising programs pertains primarily to marketing materials provided to customers. Expenditures in 2002 were \$3 million, representing a 29% decline from the previous year. The decrease related to a decline in the number of sample book collections introduced to the market in 2002. In 2003, expenditures are expected to decline to approximately \$2.2 million as the Corporation increases its focus on the lower-cost Norwall-manufactured sample books.

In accordance with Canadian generally accepted accounting principles, goodwill is no longer amortized and will only be decreased if it has been determined that there is an impairment in value. Amortization for 2001 amounted to \$216,000. Management believes that the goodwill recorded at year end is not impaired.

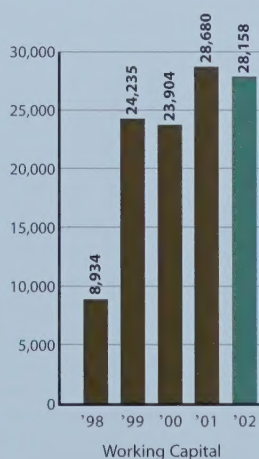
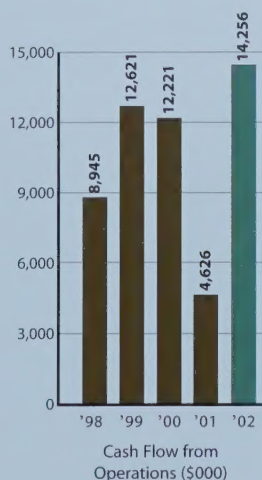
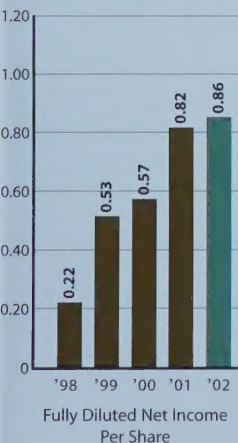
Bank Debt and Liquidity

Commencing April, 2003, Norwall will enter into a three year CDN \$20 million, formula-based, committed revolving facility with Comerica Bank, Canada Branch, which will replace the previous banking agreement the Corporation has. Under this new agreement, Norwall pledged as collateral its accounts receivable and inventory, leaving property, plant, and equipment unencumbered for the first time since going public in 1993. This achievement reflects the significant advances made by the Corporation to reduce its debt and strengthen its balance sheet.

The revolving facility has no stated repayment terms and is open to repayment without penalty. The Corporation estimates that it will reduce its debt by approximately \$7 million during 2003, thereby reducing interest costs by approximately \$350,000 based on current interest rates.

Under the new facility, the Corporation has the option of borrowing in either U.S. or Canadian dollars. Interest rates under this agreement have been established for 2003 at U.S. prime less 0.50% for U.S. dollar denominated loans and Canadian prime for Canadian dollar denominated debt. For the two following years, subject to complying with certain bank covenants, borrowings in U.S. dollars can be obtained at U.S. prime less 0.75%.

As the new banking facility will be a three-year agreement, Norwall's balance sheet will reflect this bank debt as a long-term liability. As the agreement is based on variable rate debt,



Management's Discussion and Analysis

a one percent change in interest rates would change net earnings by approximately \$70,000, based on estimated 2003 debt levels.

Risk Management

The Corporation strives to manage certain risks in the normal course of its business.

Fluctuations in Foreign Exchange Rates

As in prior years, Norwall constantly reviews the foreign exchange markets with a view to protecting the Corporation from the risk of exchange rate fluctuations. Norwall has committed to contracts of USD \$21.0 million at an average rate of CND \$1 = USD \$0.63, with expiry dates through to February 2004. The purpose of these foreign exchange contracts is to fix the exchange rate on a portion of U.S. dollar denominated sales. Patton Wallcoverings manages its daily cash functions, and the foreign exchange contracts were established to offset the exchange risk relating to those funds that are expected to flow back to Canada.

Variations in Interest Rates

In January 2002, the Corporation entered into a three-year interest rate swap agreement

with a major Canadian bank, for a notional amount of CND \$10 million, with Norwall assuming a fixed interest rate of 2.37% while the bank assumed the bankers' acceptance market rate, set quarterly. Under this arrangement, the bank had the option to terminate the agreement annually. The Corporation entered into this agreement to protect itself from rising interest rates in the short term. In January 2003, the bank exercised its option and terminated the agreement at no cost to the Corporation.

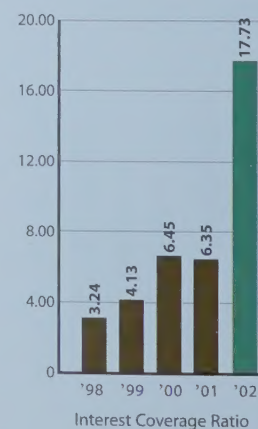
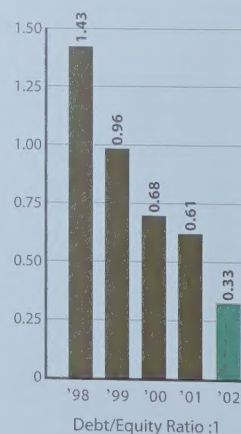
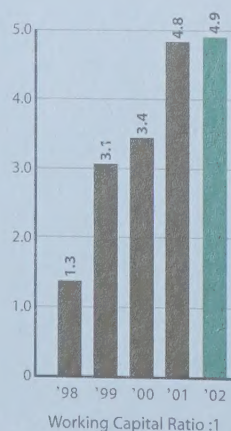
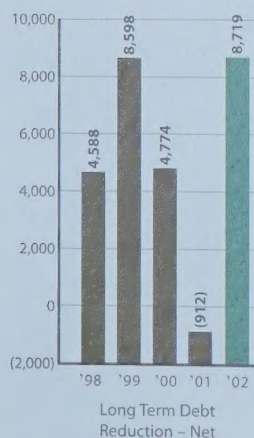
Dependency on Major Customers based in the U.S. Marketplace

The Corporation generated approximately 87% of its annual sales in 2002 in the United States, thereby placing great reliance upon the state of the U.S. economy. With the current global unrest contributing to economic uncertainty and potential war in the Middle East, the North American market outlook is cautious at best. Any significant economic event involving the United States could have a material impact on the Corporation's results in 2003.

Norwall had two customers that each accounted for more than 10% of the Corporation's consolidated sales, and together accounted for approximately 25% of sales in 2002.

Norwall attempts to diversify its sales in its various product lines.

	Long-Term Target	2002	2001	2000
U.S. Distribution	48%	47%	56%	58%
Private Label	18%	20%	17%	24%
Canadian Distribution, Mass Merchants and Exports	34%	33%	27%	18%



Management's Discussion and Analysis

Changing Customer Trends

The residential wallcovering business is fashion oriented and dependent on the tastes and decorating budgets of consumers. Norwall attempts to mitigate the risk of changing consumer trends by offering a broad selection of low-cost products, and regularly introducing creative and exciting new designs of established graphic artists.

Environmental Risk

The Corporation's only manufacturing facility is in Ontario, Canada. Management is vigilant of current environmental legislation and ensures that operations comply with applicable regulations. The Corporation's capital budget provides funding deemed to be sufficient to meet regulatory requirements.

Outlook

In spite of uncertainty in the North American economy, Norwall is in a solid position to expand its market share in an industry that has experienced a decline in sales. Over the past several years, the Corporation has positioned itself as a niche player in the more profitable residential wallcovering market. To this end, the Corporation has adopted a sharply focused emphasis on kitchen/bath and texture collections, and expanded this focus to include children's lines and feature collections. This strategy was successful in 2002 and will continue to be employed to drive Norwall's market share growth. The Corporation has added North America's largest retailer to its customer base, with a non-recurring initial sell-in of approximately \$3 million, and anticipates expanding Norwall's market share in the overall mass merchant market area.

Costs are expected to remain relatively stable, both in manufacturing and distribution operations. Despite this it will be difficult to equal our 2002 results this year with the continuing uncertainties about the U.S. economy and global conflicts. While the prior year was a record setter for earnings, the Corporation will not have the benefit of the one-time initial sale to a mass merchant realized in 2002. Furthermore, we see a continuation in the contraction of the North American residential wallcovering market into 2003.

The Corporation expects the residential wallcovering industry in North America to continue to restructure and rationalize. As this occurs, Norwall is confident that it is strategically positioned to take advantage of market opportunities as they may arise.

Forward-looking Statements

This Annual Report for the year ended December 28, 2002 contains forward-looking statements reflecting management's current expectations regarding future economic conditions, results of operations, financial performance, and other achievements of the Corporation. Actual results may differ materially from those in such statements. Norwall wishes to caution readers that the important factors described elsewhere in the commentary could affect the Corporation's results and could cause such results to materially differ from those expressed in any forward-looking statements made by, or on behalf of, the Corporation.

Summary of Quarterly Earnings (Loss)

(in thousands of Canadian dollars)

Three-Months Ended	Revenue	Net Income (Loss)	Basic Earnings per Common Share	EBITA
2002				
December 28	\$ 17,265	\$ (1,148)	\$ (0.18)	\$ 1,148
September 28	18,166	801	0.12	1,157
June 29	22,398	1,650	0.26	1,650
March 30	26,479	4,290	0.68	7,497
2001				
December 29	\$ 15,901	\$ 2,987	\$ 0.47	\$ 2,187
September 29	17,768	372	0.06	2,412
June 30	16,161	582	0.09	2,362
March 31	20,213	1,327	0.21	3,970

* EBITA is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Investors should be cautioned, however, that EBITA should not be construed as an alternative to net income, loss, determined in accordance with GAAP as an indicator of the Corporation's performance or to cash flows from operating, investing, and financing activities as a measure of liquidity and cash flows. The Corporation's method of calculating EBITA may differ from other companies and, accordingly, EBITA may not be comparable to measures used by other companies.



Fresh strawberries & plant
 Basket with cups
 Green blue & yellow
 Pink towel laid

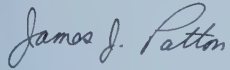


Management's Responsibility for Financial Reporting

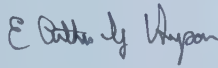
Management is responsible for preparing the accompanying consolidated financial statements and for assessing their objectivity and integrity.

Management believes that the consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and fairly report the Corporation's financial position and results of operations.

The consolidated financial statements include amounts that are based upon estimates and judgements which management believes are reasonable under the circumstances. The consolidated financial statements have been audited by PricewaterhouseCoopers LLP in accordance with Canadian generally accepted auditing standards, providing independent verification of management's presentation of the Corporation's financial statements. Management has established the necessary system of internal controls designed to ensure that transactions are authorized, assets are adequately protected and proper records are maintained. Norwall has an Audit Committee of which a majority of the members are neither officers nor employees of the Corporation. The Committee meets each quarter and has full and unrestricted access to the Corporation's auditors to ensure the objectivity of management's financial reporting and adequacy of system of internal controls.



James J. Patton
Vice-Chairman,
President and Chief Executive Officer



E. Arthur G. Hampson
Chief Financial Officer



Auditors' Report

To the Shareholders of Norwall Group Inc.

We have audited the consolidated balance sheets of **Norwall Group Inc.** as at December 28, 2002 and December 29, 2001 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 28, 2002 and December 29, 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
February 21, 2003

Consolidated Financial Statements Norwall Group Inc.

Consolidated Balance Sheets

(in thousands of Canadian dollars)

	December 28, 2002	December 29, 2001
	\$	\$
Assets		
Current assets		
Accounts receivable	14,819	14,853
Inventories (note 2)	15,515	15,882
Merchandising supplies	1,046	1,939
Prepaid expenses and other	3,971	3,619
	35,351	36,293
Property, plant and equipment (note 3)	22,768	22,207
Investment in customer merchandising programs (note 4)	6,404	6,888
Other assets	226	261
Future income taxes (note 5)	2,400	4,600
Goodwill	1,693	1,693
	68,842	71,942
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,861	6,249
Income taxes payable	1,332	31
Current portion of long-term debt (note 6)	1,000	1,333
	7,193	7,613
Long-term debt (note 6)	13,736	22,122
Future income taxes (note 5)	3,865	3,867
	24,794	33,602
Shareholders' Equity		
Share capital (note 7)	32,096	31,981
Foreign currency translation adjustment	(97)	(97)
Retained earnings	12,049	6,456
	44,048	38,340
	68,842	71,942

Approved by the Board



James J. Patton, Vice Chairman,
President and Chief Executive Officer



David M. Gee, Director

Consolidated Financial Statements Norwall Group Inc.

Consolidated Statements of Income and Retained Earnings
(in thousands of Canadian dollars, except per share amounts)

	Year ended December 28, 2002	Year ended December 28, 2001
	\$	\$
Sales	84,308	84,308
Cost of goods sold	57,107	57,107
Gross profit	27,201	27,201
Administrative, selling and warehousing expenses	16,596	16,596
Income from operations before the following items	10,605	10,605
Foreign exchange (loss) gains	(222)	(222)
Interest expense	(902)	(902)
Income before income taxes	9,481	9,481
Provision for (recovery of) income taxes (note 5)	3,888	3,888
Net income for the year	5,593	5,593
Retained earnings – Beginning of year	6,456	6,456
Retained earnings – End of year	12,049	12,049
Net income per common share		
Basic	0.88	0.88
Diluted	0.86	0.86
Weighted average number of common shares outstanding	6,355,840	6,355,840

Consolidated Financial Statements Norwall Group Inc.

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

	Year ended December 28, 2002 \$	Year ended December 29, 2001 \$
Cash provided by (used in)		
Operating activities		
Net income for the year	5,593	5,268
Items not affecting cash		
Amortization	5,610	5,255
Future income tax provision (recovery)	2,198	(1,625)
Other	–	(159)
Changes in non-cash operating working capital (note 8)	855	(4,113)
	14,256	4,626
Investing activities		
Additions to property, plant and equipment – net	(2,588)	(2,382)
Investment in customer merchandising programs	(2,998)	(4,202)
	(5,586)	(6,584)
Financing activities		
Issuance of share capital	115	42
Issuance of long-term debt	–	912
Repayment of long-term debt	(8,719)	–
Other assets	(66)	–
	(8,670)	954
Decrease in cash during the year	–	(1,004)
Cash – Beginning of year	–	1,004
Cash – End of year	–	–
Supplementary information		
Income taxes paid	389	842
Interest paid	966	1,844

Mosaic + marble! (Classical work
in the mosaic was executed
with the famous columns in the
marble - Egyptian style
any other... it's very expensive
with permanent tiles in
light reflective surface



Consolidated Financial Statements Norwall Group Inc.

Notes to Consolidated Financial Statements

December 28, 2002 and December 29, 2001

(in thousands of Canadian dollars, except per share amounts)

1 Summary of significant accounting policies

Basis of financial presentation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiary companies:

Norwall Holdings, Inc., and

Patton Wallcoverings Inc., a wholly owned subsidiary of Norwall Holdings, Inc.

The year-end of the company is the last Saturday in December.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

Inventories

Finished goods inventories are valued at the lower of cost and net realizable value. Work-in process, raw materials and supplies are valued at the lower of cost and replacement cost. Cost is determined on a first-in, first-out basis.

Property, plant and equipment

Property, plant and equipment are recorded at the lower of cost, less amortization, and net recoverable amount. Amortization is provided using the straight-line method to reflect the following estimated useful lives:

Buildings and improvements	10 – 40 years
Machinery and equipment	5 – 29 years
Furniture and fixtures	5 – 8 years
Computers	3 years

Investment in customer merchandising programs

Investment in customer merchandising programs is recorded at the lower of cost and net recoverable amount, and represents costs associated with providing point of sale material to retailers in the distribution business, which are amortized over the expected useful lives.

Certain up front payments to customers are deferred and amortized over a maximum of one year based on the expected sales volumes to be achieved.

Deferred financing charges

Costs of obtaining long-term financing are amortized over the terms of the related debt.

Goodwill

In 2001 goodwill was recorded at the lower of cost and net recoverable amount. Goodwill represents the difference between the price paid for businesses acquired and fair value of the related net tangible assets.

In 2002, the company adopted Section 3062 of The Canadian Institute of Chartered Accountants Handbook entitled "Goodwill and Other Intangible Assets". Under the new standard, the company no longer amortizes goodwill. Instead, goodwill is subject to an annual impairment test, or more frequently, if events or circumstances indicate goodwill may be impaired. An impairment charge is recognized when the estimated fair value of goodwill is lower than carrying amounts. No provision for impairment was required upon adoption of this new standard. Amortization of goodwill included in the 2001 financial statements amounted to \$216. The impact on earning per share in 2002 was an increase of \$0.03 per share.

Consolidated Financial Statements Norwall Group Inc.

Notes to Consolidated Financial Statements December 28, 2002 and December 29, 2001

(in thousands of Canadian dollars, except per share amounts)

Financial instruments

Realized gains and losses on foreign exchange forward contracts that hedge anticipated revenues are included in income when the revenue is earned. Unless otherwise indicated, the fair values of financial instruments, such as accounts receivable, accounts payable, other assets and liabilities, income taxes payable and long-term debt, approximate their book values.

Translation of foreign currencies

The operations of all of the company's United States operations are accounted for on the integrated basis. Monetary assets and liabilities of integrated subsidiaries are translated into Canadian currency at year-end exchange rates and the resulting gain or loss is included in income for the year. Non-monetary assets and liabilities are translated at historical exchange rates. The income statements of these subsidiaries are translated at exchange rates prevailing during the years.

Monetary assets and liabilities of domestic operations, which are denominated in a foreign currency, are translated into Canadian currency at year-end exchange rates and transactions included in income are translated at rates prevailing during the years.

Future income taxes

The company uses the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect in the periods in which the future tax assets or liabilities are realized or settled. A valuation allowance is provided to the extent that management believes it is more likely than not that future income tax benefits will not be realized.

Stock-based compensation

The company has a stock-based compensation plan, which is described in note 7. No compensation expense is recognized for the cost of stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of shares of the company to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

Effective December 30, 2001, the company adopted the new recommendations of The Canadian Institute of Chartered Accountants' Staff Paper on Stock-Based Compensation and Other Stock-Based Payments. The new recommendations require where fair value accounting is used to account for employee stock options, companies are required to disclose pro forma net income and earnings per share as if the fair value method had been used for options issued starting in fiscal 2002. As no options were granted during the year, no pro forma amounts have been provided.

Earnings per share

The treasury stock method of calculating earnings per share is used. Diluted net income per common share for the year ended December 28, 2002 has been calculated using a denominator of 6,504,141 shares (year ended December 29, 2001 - 6,382,000 shares) which includes the dilutive effect of all outstanding common share options disclosed in note 7.

2 Inventories

	December 28, 2002	December 29, 2001
	\$	\$
Finished goods	14,585	14,665
Work-in-process	189	363
Raw materials	741	854
	15,515	15,882

Consolidated Financial Statements Norwall Group Inc.

Notes to Consolidated Financial Statements
December 28, 2002 and December 29, 2001

(in thousands of Canadian dollars, except per share amounts)

3 Property, plant and equipment

	December 28, 2002 \$	December 29, 2001 \$
Cost		
Land	3,788	3,788
Buildings and improvements	7,175	6,944
Machinery and equipment	32,059	29,849
Furniture and fixtures	1,017	893
	44,039	41,474
Less: Accumulated amortization		
Buildings and improvements	2,773	2,509
Machinery and equipment	17,614	15,990
Furniture and fixtures	884	768
	21,271	19,267
	22,768	22,207

In 2001, the company extended the estimated useful lives of machinery and equipment by five years. This change in accounting estimate has been applied prospectively and resulted in a reduction in amortization expense of approximately \$400,000 for the year ended December 29, 2001.

4 Investment in customer merchandising programs

	December 28, 2002 \$	December 29, 2001 \$
Cost		
Opening	13,809	12,867
Additions	2,998	4,202
Write-offs	(3,171)	(3,260)
	13,636	13,809
Less: Accumulated amortization		
Opening	6,921	6,820
Additions	3,482	3,361
Write-offs	(3,171)	(3,260)
	7,232	6,921
	6,404	6,888

Consolidated Financial Statements Norwall Group Inc.

Notes to Consolidated Financial Statements
December 28, 2002 and December 29, 2001

(in thousands of Canadian dollars, except per share amounts)

5 Income taxes

Income tax expense (recovery) differs from the amounts which would be obtained by applying the combined Canadian basic federal and provincial income tax rates, after the manufacturing and processing deduction, of approximately 33% (2001 – 34%) to income before income taxes. These differences result from the following:

	Year ended December 28, 2002 \$	Year ended December 29, 2001 \$
Provision for income taxes based on Canadian federal and provincial combined statutory rates	3,650	1,690
Manufacturing and processing deduction	(522)	—
Valuation allowance reversal	(1,000)	—
Foreign rate differential	160	—
Change in rates	400	—
Adjustments to prior tax filings and income tax reassessment	1,200	—
Other items	—	—
	3,888	—
Provision for (recovery of) income taxes		
Current	1,690	—
Future	2,198	—
	3,888	—

Significant components of the future income tax balances are as follows:

	December 28, 2002 \$	December 29, 2001 \$
Future income tax asset – U.S. operations		
Operating tax losses carried forward expiring starting in 2011	4,000	—
Investment in customer merchandising programs	(2,100)	—
Other temporary differences	1,150	—
	3,050	—
Valuation allowance	(650)	(2,200)
	2,400	—

Approximately \$550 of valuation allowance has been applied to reduce the benefit of operating tax losses.

Future income tax liabilities – Canadian operations		
Depreciable property, plant and equipment	3,799	3,214
Other temporary differences	66	—
	3,865	3,867

Consolidated Financial Statements Norwall Group Inc.

Notes to Consolidated Financial Statements

December 28, 2002 and December 29, 2001

(in thousands of Canadian dollars, except per share amounts)

6 Long-term debt

	December 28, 2002 \$	December 29, 2001 \$
Bank revolving loan secured by inventories and accounts receivable, bearing interest at prime rate plus 0.75% per annum (2001– Canadian prime plus 1% per annum) or U.S. prime on U.S. dollar borrowings	10,320	16,706
Bank term loans secured on all assets, bearing interest at prime rate plus 1% per annum (2001 – 1.25% per annum)	4,416	6,749
	14,736	23,455
Less: Portion due within one year	1,000	1,333
	13,736	22,122

Included in the bank revolving loan is US\$3,750 in borrowings at December 28, 2002

The company is required to meet certain financial covenants under the terms of the bank loans. The company has additional availability under the loan secured by inventories and accounts receivable up to a maximum of US\$14,500 (or its Canadian dollar equivalent). This loan is due in June 2005.

Minimum principal repayments on the long-term debt are as follows:

	\$
2003	1,000
2004	1,000
2005	10,320
2006	597
2007 and thereafter	1,819
	14,736

7 Share capital

Authorized

Unlimited number of Class A, non-voting, preference shares, redeemable and retractable at an amount of \$1,000 per share with a non-cumulative annual dividend of up to \$80 per share

Unlimited number of Class B, non-voting, preference shares, redeemable and retractable at an amount of \$100 per share with a non-cumulative annual dividend of up to \$8 per share

Unlimited number of Class C, voting, preference shares, redeemable at an amount of \$1 per share

Unlimited number of common shares

Issued

	December 28, 2002 \$	December 29, 2001 \$
6,386,936 (2001 – 6,336,936) common shares	32,096	31,981

Consolidated Financial Statements Norwall Group Inc.

Notes to Consolidated Financial Statements
December 28, 2002 and December 29, 2001
(in thousands of Canadian dollars, except per share amounts)

7 Share capital (CONT.)

The company has a fixed stock option plan. Options are granted to certain employees at the discretion of the Board of Directors. A maximum of 430,000 (2001 – 480,000) shares have been reserved for future issuance under the plan. The exercise price of each option equals the market price of the company’s stock on the date of grant and an option’s maximum term is ten years. Generally, options are exercised in the year they are granted.

The following table summarizes the activity over the past two years for options issued to date:

	Year ended December 28, 2002		Year ended December 29, 2001	
	Shares	Weighted average exercise price \$	Shares	Weighted average exercise price \$
Number of common share options outstanding – Beginning of year	226,000	2.40	211,000	2.29
Common share options exercised	(50,000)	2.29	(21,000)	2.29
Common share options expired and cancelled	–	–	15,000	2.29
Number of common share options outstanding – End of year	176,000	2.43	205,000	2.29

The following table summarizes information about stock options outstanding at December 28, 2002:

Exercise price \$	Weighted average remaining contractual life	Number of options outstanding at December 28, 2002
1.60	4.5 years	40,000
2.00	4.5 years	100,000
2.85	5.5 years	100,000
3.00	7.0 years	30,000
		270,000

Consolidated Financial Statements Norwall Group Inc.

Notes to Consolidated Financial Statements

December 28, 2002 and December 29, 2001

(in thousands of Canadian dollars, except per share amounts)

8 Changes in non-cash operating working capital

	Year ended December 28, 2002	Year ended December 29, 2001
	\$	\$
Accounts receivable	34	(2,166)
Inventories	367	(1,448)
Merchandising supplies	893	283
Prepaid expenses and other	(352)	(159)
Accounts payable and accrued liabilities	(1,388)	504
Income taxes payable	1,301	(1,127)
	855	(4,113)

9 Financial instruments

The company is subject to foreign exchange exposures arising from its foreign currency denominated sales, which are primarily in U.S. dollars. The company manages this risk by buying foreign exchange forward contracts. At December 28, 2002, foreign exchange forward contracts with expiry dates through to March 2004 were outstanding for the sale of US\$22,500 (2001 – US\$22,500) at an average rate of CAN\$1.00 = US\$0.63. At December 28, 2002, the company would have received \$147 on the termination of these contracts. (2001 – the company would have been required to pay \$827 to terminate its foreign exchange forward contracts.)

10 Related party transactions

At December 28, 2002, an officer, who is also a director, owns 20.8% (2001 – 20.9%) of the issued and outstanding common shares.

The company entered into the following transactions with a director or companies under his control. These transactions were recorded at fair market values:

	Year ended December 28, 2002	Year ended December 29, 2001
	\$	\$
Rental of buildings	463	456
Wallcovering purchases	–	230

11 Contingent liabilities and commitments

The company is a defendant with respect to certain legal and other actions. The company's management and solicitors are vigorously defending these actions. Management believes that there will be no material liability in connection with these actions.

At December 28, 2002, the company had commitments under various operating leases, which require future minimum rental payments as follows:

	\$
2003	427
2004	406
	833

Consolidated Financial Statements Norwall Group Inc.

Notes to Consolidated Financial Statements
December 28, 2002 and December 29, 2001

(in thousands of Canadian dollars, except per share amounts)

12 Segmented information

Management operates the company as an integrated entity with one operating segment. Geographic information is outlined below:

	Sales \$	Amortization \$	Income from operations before the following items \$	Property, plant and equipment and goodwill \$	Additions to property, plant and equipment \$
Year ended December 28, 2002					
Canada	51,475	2,477	6,568	22,500	2,500
U.S.A.	50,054	3,133	4,407	1,961	88
Intercompany eliminations	(17,221)	–	(370)	–	–
	84,308	5,610	10,605	24,461	2,588
Year ended December 29, 2001					
Canada	40,082	1,770	2,599	21,870	2,264
U.S.A.	39,503	3,485	2,469	2,030	118
Intercompany eliminations	(9,542)	–	(41)	–	–
	70,043	5,255	5,027	23,900	2,382

For the year ended December 28, 2002, sales in the U.S. included products manufactured in the company's Canadian plant amounting to \$22,676 (2001 – \$21,826). The Canadian operations include export sales of \$25,571 and \$21,839 for the years ended December 28, 2002 and December 29, 2001, respectively.

The company's sales to two major customers accounted for approximately 13% and 12%, respectively, of total sales in 2002 (2001 – one customer at 13%).



Board of Directors

Donald M. Reid
CHAIRMAN, INDEPENDENT CONSULTANT TO
THE FINE PAPER INDUSTRY

James J. Patton
VICE-CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER

David M. Gee
PRESIDENT,
MARSULEX INC

William McIntosh
PRESIDENT,
TIMBERLAND CANADA CO.

Leslie A. McMichael
PRESIDENT,
DECWALL SERVICES INC.

Corporate Officers

Donald M. Reid
CHAIRMAN

James J. Patton
VICE-CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER

E. Arthur G. Hampson
CHIEF FINANCIAL OFFICER

Peter J. Walmsley
VICE-PRESIDENT, HUMAN RESOURCES
AND CORPORATE SECRETARY

Wholly-Owned Subsidiaries

Norwall Holdings, Inc.
1106 Ridge Street
Columbus, Ohio 43215

Patton Wallcoverings, Inc.
1106 Ridge Street
Columbus, Ohio 43215

Shareholder Information

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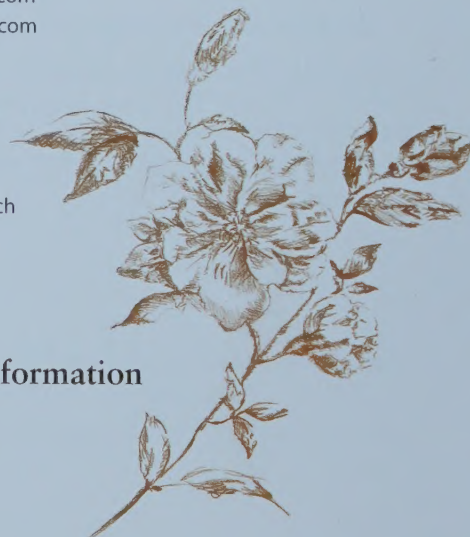
Auditors
PricewaterhouseCoopers LLP

Banker
Comerica Bank, Canada Branch

Legal Counsel
Fogler, Rubinoff

Stock Exchange Information

Toronto Stock Exchange
Market Symbol: NGI





*Decorative
architectural border
with gnomes
resembling broken
plaster/stone wall*



